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SUBJECT: SCENESETTER FOR HHS DEPUTY SECRETARY AZAR'S VISIT
TO AUSTRIA; SEPTEMBER 12-17

¶1. (SBU) Austrian-U.S. relations have a solid basis in the common values of democracy and civil rights, and Austria's international activities contribute to our shared vision of a world of peace, freedom, democracy and prosperity. Austria held the rotating Presidency of the EU Council for the first half of 2006, which gave the U.S. the opportunity to work with the government at an unusually high level of intensity.

HEALTH CARE ISSUES

Austrian Health Care System

¶2. (U) Since the end of World War II, the Austrian health care system has evolved into a complex entity with a multitude of stakeholders, including all nine state governments and various governmental social security companies based on professional affiliations (e.g., farmers, civil servants, private sector employees, and self-employed). Health care expenditures greatly exceed revenues. Experts maintain that the government must reduce spending by at least Euro 300 million per year to guarantee the system will not collapse in the near future. Virtually all occupational associations have to pay a percentage of their income into the mandatory social insurance system for health care funds. These funds cover ambulatory care and drugs. State governments are responsible for financing patient care. The current system does not contain enough incentives for cost containment and costs are therefore exploding. Health care costs have risen from 7.5 percent of GDP in 2000 to 9.5 percent (Euro 23 billion) of GDP in 2004. However, this figure is still only slightly above the EU average. Social insurance payments from the various occupational associations provide for 70 percent of the system, state budgets for 20 percent, and individual contributions account for the remaining 10 percent. Private contributions are increasing since doctors tend to opt out of the social insurance system, leading patients to insure themselves privately.

Pharmaceutical Industry

¶3. (SBU) U.S. pharmaceutical companies based in Austria have kept the Embassy aware of continued concerns regarding restricted access to the Austrian market, below-EU-average prices, and weak patent protection in Austria. The Embassy has facilitated discussions between GoA health care stakeholders and the pharmaceutical firms by holding yearly Informal Commercial Exchange (ICE) talks and follow-up meetings. The latest ICE talks took place in March 2006, with a follow-up in June 2006. Despite some improvements such as the installation of an "Independent Drug Commission" and a better structured pricing system, the pharmaceutical companies are requesting permanent access to innovative medicines for Austrian patients, less volume control, and more effective legal remedies.

Avian Influenza

¶4. (U) In February, the H5N1 strain of avian influenza surfaced in Austria. To date, 92 birds (mainly wild swans and ducks) have tested positive. Authorities required farmers to keep poultry in coops until April 30. Three cats that lived in an animal shelter in Graz, together with an H5N1-infected swan, also tested positive for the virus. However, the cats apparently fought off the virus. The GoA has official plans to address both an animal epidemic and an influenza pandemic. There has been no outbreak of avian flu in Austria since 1946. The GoA is still in negotiations with Roche on creating stockpiles of Tamiflu. The Austrian subsidiary of Baxter is developing vaccines against a possible flu pandemic. During a February 24 Informal Health Ministerial on the "Impact of Avian Influenza on Public Health in Europe," EU health ministers stressed the importance of public awareness. Austria pledged \$1 million at the January Avian Flu Conference in Beijing. Austria hosted an International Partnership on Avian and Pandemic Influenza (IPAPI) Senior Officials' Meeting on June 6-7.

POLITICAL SITUATION

¶5. (SBU) Chancellor Wolfgang Schuessel's Austrian People's Party (ÖVP) governs Austria in coalition with the Alliance for the Future of Austria (BZÖ). Schuessel faces parliamentary elections on October 1. He remains more popular than his party, which has lost a series of state elections since taking office in 2000. However, the opposition Social Democrats, who had led in polls for more than a year, have suffered fallout from the revelation that a trade union-owned bank lost Euro 1 billion in currency speculations. The

election, once an uphill battle for Schuessel, now appears to be a tossup. Still, Schuessel cannot hope to form a new government with his current coalition partner, which is in the process of disintegration. Many observers expect the elections to result in a grand coalition of the People's Party and the Social Democrats. A coalition of either of the major parties with the Greens is also a possibility.

PROMOTING DEMOCRACY AND FREEDOM

¶6. (SBU) Under Schuessel, Austria has played an active role in advancing freedom and stability in Southeastern Europe. Austria's foreign policy agenda for the presidency started in the Balkans, where Schuessel has been a solid partner for the U.S. Austria assumed a EUFOR command in Bosnia on November 30, 2005. The government has placed no caveats on the use of its 600 troops in Kosovo and over 300 in Bosnia. As EU Council President, Schuessel facilitated progress on status questions in Kosovo and elsewhere. Austrian diplomats played key roles, working closely with the U.S. and with UN Special Envoy Martti Ahtisaari. A broader area of emphasis for the Austrian Presidency was the EU's "New Neighborhood" policy. The Austrians sought to promote democracy and reform in Belarus, supporting the U.S. strategy to isolate Belarussian President Lukashenko.

¶7. (SBU) Austria has made modest but important contributions to stability in Iraq: police trainers at the Iraqi Police Academy in Jordan, humanitarian aid, substantial debt relief, and offers of export credit guarantees. The Foreign Ministry has sent a Special Envoy to Baghdad for the duration of Austria's EU Presidency. Austria has twice sent troops to Afghanistan, most recently in fall 2005 to assist the German Provincial Reconstruction Team in Konduz with election security.

¶8. (SBU) In the Broader Middle East, Austria has encouraged the identification of common values as a response to extremism. In November 2005, Austria hosted a conference on

"Islam in a Pluralistic World," which Iraqi and Afghan Presidents Talabani and Karzai attended. This event reinforced the message of the Bahrain Forum for the Future conference and supported our broad goals. The Austrian Presidency also led the EU effort to encourage dialogue with the Muslim world in the wake of the Danish cartoon controversy. In this connection, it hosted an April 7-9 Conference of European Imams. EU policy on Hamas, under Austrian leadership, is identical to USG policy, i.e., Hamas needs to renounce violence, recognize Israel, and accept existing agreements. The EU has also cut off assistance to the Hamas government. Austria supported UNSCR 1701 calling for a ceasefire in Lebanon, but has for the moment declined to commit forces for the revamped United Nations Forces in Lebanon (UNIFIL).

¶9. (SBU) The Austrians are skeptical on Turkish EU membership, but have allowed accession talks to proceed. However, Schuessel has repeatedly emphasized that Turkey must meet all criteria for membership. Further, in his view, the EU also has a lot of "homework" still to do before it will be ready to absorb Turkey as a member state.

ECONOMIC PROSPERTIY AND DEVELOPMENT

¶10. (SBU) Austrian business, especially in the financial sector, has delivered real benefits to the area between Austria and the Russian border. Austrian banks are important in the region, holding almost a quarter share of the region's banking sector. The stability they bring has been a basis for commercial investment and development. USG officials have been actively working with Austrian government and financial interlocutors on issues of concern relating to illicit finance, anti-money laundering/counter-terrorist financing and WMD proliferation in the region.

¶11. (SBU) The Austrian bank Raiffeisen has found itself in the spotlight because its subsidiary, Raiffeisen International AG (RIAG), was instrumental in the January natural gas deal between Russia and Ukraine. RIAG serves as a trustee for Ukrainian businessman Dmitr Firtash in a joint venture with Gazprom. The joint venture (RUE) was key in "unblocking" the dispute. According to press reports, RUE is mixing more expensive gas from Russia with cheaper supplies from Turkmenistan and reselling it to Western Europe at market prices and Ukraine at a lower price.

¶12. (SBU) Austrian firms have a strong presence in the Middle East. Austrian business has made strides in

reestablishing itself in Iraq, and the Austrian government opened a small Trade Office in Erbil in December. Austrian Airlines hopes to become the first western airline to institute regular flights to Iraq, pending an improvement in the security situation.

¶13. (SBU) Austria has traditionally had close commercial relations with Iran. An Austrian arms manufacturer sold high-power sniper rifles to Iran in 2005 before the Austrian government halted further deliveries. Iran recently shelved plans to open a large trade center in the Austrian state of Burgenland because of start-up difficulties.

¶14. (SBU) Austrian development policy focuses on Official Development Assistance, committing resources to a few "priority countries" in order to maximize impact. Austria prefers to channel emergency response through the EU, although they made generous bilateral offers of assistance after Hurricane Katrina.

SECURITY AGENDA

¶15. (SBU) Austria is a strong partner in stemming financial flows to terrorists. Our law enforcement cooperation with Austria has generally been flexible and effective. The Austrian government made anti-corruption and law enforcement

cooperation a cornerstone of its presidency. Austria had previously taken the lead for the EU in coordinating law enforcement activities in Central and Eastern Europe and Central Asia.

McCaw